

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name City of Newaygo	County Newaygo
Fiscal Year End 6/30/07	Opinion Date 10/3/07		Date Audit Report Submitted to State 10/9/07		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N/A	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 1-231-726-5800	
Street Address 316 MORRIS AVENUE		City MUSKEGON	State MI
Zip 49443			
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> <i>for Brickley DeLong, PLC</i>	Printed Name TIMOTHY D. ARTER	License Number 10253	

City of Newaygo
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

City of Newaygo

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CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

The City Manager and staff of the City of Newaygo present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage you to consider the information presented in the financial statements, which begin on page 3, along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

The City has completed a number of projects during this fiscal year (July 1, 2006 – June 30, 2007).

- An amphitheater was constructed in Brooks Park behind City Hall. Every Friday evening during the summer, there have been musical performances and a movie on stage. This is part of "Newaygo Daze", a Chamber of Commerce program that produces events each Friday from June through October, including a farmer's market.
- A neighborhood park was installed on Brooks Street near Stake Street that includes a scenic overlook to Brooks Creek.
- A pavilion was installed at Shaw Park.
- Croton Road, east of M-82 was reconstructed.

The City's Tax Increment Finance Authority (TIFA) was audited by the State of Michigan for the period 1994 through 2005. This was the first TIFA audit since the adoption of Proposal A in 1994. The audit was favorable to TIFA, resulting in a net refund over \$200,000. The refund has been added to TIFA's net assets and will be used for public improvement projects. Along with the TIFA audit, the City's Industrial Facilities Tax (IFT) exemption certificates were audited for the time period 1996 through 2005. The IFT audit resulted in no significant changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) notes to the financial statements and 3) fund financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

In the statement of net assets and the statement of activities, the City is divided into three kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including public safety, public works, general administration, community and economic development and parks and recreation. Property taxes and state shared revenues finance most of these activities.

- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer systems are reported here.
- Component Unit activities - Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City has two component units, the Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). TIFA and LDFA exist primarily for the issuance and repayment of debt to finance improvement projects in specific areas of the City.

Fund Financial Statements

The fund financial statements begin on page 5 and provide detailed information about the most significant City funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The City has the following kinds of funds:

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in reconciliation along with the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. The City's Enterprise and Internal Service funds are proprietary funds. The City's water and sewer operations comprise the enterprise funds. The Equipment Pool is the only Internal Service fund. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
- Fiduciary funds - The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund and Major Streets Fund.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis of the government-wide financials focuses mainly on two things, net assets (Statement of Net Assets) and changes in net assets (Statement of Activities) of the City's governmental and business-type activities. The Component Units (TIFA and LDFA) are not included in these figures.

Net Assets

The first table presented below is a summary of the government-wide statement of net assets for the City of Newaygo. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of June 30, 2007, the City's net assets from governmental activities totaled \$6,828,610 and \$6,859,797 from business-type activities, creating a total government-wide net assets total of \$13,688,407.

In examining the composition of these net assets, the reader should note that net assets for governmental activities are mostly invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$522,863. This represents the amount of discretionary resources that can be used for general governmental operations. Restricted net assets, those restricted mainly for streets and highways, debt service, and capital projects were \$192,101.

Some of the more significant change in activities from last year are as follows: For governmental activities, current and other assets decreased by approximately \$89,000. This decrease was the result of street construction costs and the purchase of equipment. Capital assets increased by approximately \$137,000 mainly due to street reconstructions. Non-current liabilities decreased due to normal scheduled debt payments. Capital assets, net of related debt increased by approximately \$272,000. This increase was the result of street reconstructions, other capital asset additions and repayment debt offset by normal scheduled depreciation. Restricted net assets decreased due to use of funds for road constructions.

For business activities, capital assets decreased by approximately \$302,000 due to normal depreciation exceeding current year capital additions. Net assets invested in capital assets, net of related debt decreased by approximately \$215,000 due to the decrease in capital assets discussed above exceeding the repayment of capital debt.

Net assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets and						
other assets	\$ 1,233	\$ 1,322	\$ 472	\$ 575	\$ 1,705	\$ 1,897
Capital assets	6,871	6,734	9,465	9,767	16,336	16,501
Total assets	8,104	8,056	9,937	10,342	18,041	18,398
Current liabilities	250	210	133	143	383	353
Noncurrent liabilities	1,025	1,215	2,944	3,012	3,969	4,227
Total liabilities	1,275	1,425	3,077	3,155	4,352	4,580

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Net assets						
Invested in capital assets, net of related debt	\$ 6,114	\$ 5,842	\$ 6,473	\$ 6,688	\$ 12,587	\$ 12,530
Restricted	192	259	141	184	333	443
Unrestricted	523	530	246	315	769	845
Total net assets	<u>\$ 6,829</u>	<u>\$ 6,631</u>	<u>\$ 6,860</u>	<u>\$ 7,187</u>	<u>\$ 13,689</u>	<u>\$ 13,818</u>

Change in Net Assets

Governmental Activities

Operating grants decreased due to the end of various grant programs in the prior year. Capital grants and contributions were higher due to a contribution from the State of Michigan for the Croton Road project. General revenue grant and contributions increased due to an increase in funds returned from component units.

General government expenses increased due to an increase in legal expense. Public safety expenses increased due to an increase in wages in the police department. Public works expenses increased due to an increase in contract services for crushing concrete, increase in snow plowing costs, increase in lighting costs and an increase in depreciation due to the reconstruction of Croton road. Community and economic development dropped due to the end of the MSHDA grant.

Business-Type Activities

Operating revenues for the business-type activities were approximately \$740,000 a decrease of approximately \$98,000 or 13%. This decrease was due to a drop in connection fees. There were no capital grants or contributions this year.

Operating expenses for the Water fund decreased by \$56,000 from the prior year. The prior fiscal year had a number of large repair and maintenance items related to the water tower. There were no similar size repair and maintenance items in the current year.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Changes in net assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 193	\$ 163	\$ 740	\$ 838	\$ 933	\$ 1,001
Operating grants contributions	182	675	-	-	182	675
Capital grants and contributions	584	80	-	40	584	120
General revenues						
Property taxes	270	274	-	-	270	274
Franchise fees	11	10	-	-	11	10
Grants and contributions not restricted	472	363	-	-	472	363
Unrestricted investment earnings	34	34	17	9	51	43
Other	42	35	-	-	42	35
Total revenues	1,788	1,634	757	887	2,545	2,521
Expenses:						
General government	346	312	-	-	346	312
Public safety	366	324	-	-	366	324
Public works	753	669	-	-	753	669
Community and economic development	-	511	-	-	-	511
Culture and recreation	94	118	-	-	94	118
Interest on long term debt	31	33	-	-	31	33
Sewer	-	-	576	589	576	589
Water	-	-	508	564	508	564
Total expenses	1,590	1,967	1,084	1,153	2,674	3,120
Change in net assets	198	(333)	(327)	(266)	(129)	(599)
Net assets - Beginning	6,631	6,964	7,187	7,453	13,818	14,417
Net assets - Ending	\$ 6,829	\$ 6,631	\$ 6,860	\$ 7,187	\$ 13,689	\$ 13,818

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2007, the City governmental funds reported a combined fund balance of \$394,342. This number represents the fund balance of \$196,098 in the General Fund and \$198,246 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders, 2) pay debt service, and 3) capital purchases. When the fund balance has been adjusted to account for these reserves, the result is a final unreserved fund balance of \$259,980, which consists of unreserved fund balance of \$181,639 in the General Fund plus the unreserved fund balance of \$78,341 in other governmental funds.

The General Fund is the chief operating fund of the City. Its reserved and unreserved fund balances are mentioned above. During the current fiscal year, the General Fund saw a fund balance decrease of \$4,519. There was a decrease in intergovernmental revenues due to the end of a federal public safety grant. Public safety expenditures increased due to filling an open position within the police department. This open position resulted in an increase in wages and fringe benefits.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. In the financial statements, Sewer, Water, and Internal Service funds are grouped together as "Proprietary Funds". Unrestricted net assets of the Sewer Fund were \$81,489. Unrestricted net assets of the Water Fund were \$164,183. Unrestricted net assets of the Internal Service Funds were \$71,919.

The largest single item to note for the Water and Sewer Funds is depreciation expense. With large infrastructure improvements and equipment purchases in the last few years, the City has more and newer capital assets that are depreciated each year. The Sewer Fund and Water fund ended the year with a decrease in cash reserves. The decrease in reserves was due to higher than anticipated repair and maintenance expenses, capital asset additions paid for out of cash and a lack of connection fee income during the year.

The internal service fund had an increase this year as the fund continues to be run more effectively and maintenance costs for vehicles has declined due to a rotation schedule for the purchase of equipment.

Component Units

Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City's Component Units consist of the Tax Increment Finance Authority (TIFA) and the Local Development Finance Authority (LDFA). Due to the fact that TIFA and LDFA finance many infrastructure projects through property tax revenues and debt issuance, but do not own any infrastructure to offset the debt, these funds show large deficits for net assets. Overall these funds improved as their negative net asset values became smaller. The net assets deficit of the TIFA was \$1,512,693 a gain of \$577,168. This increase in the TIFA was obtained even though the TIFA undertook a number of projects during the year. The LDFA ended the year with positive net assets of \$57,963 and paid off its only outstanding debt.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council amended the General Fund budget. The two most significant of these budget amendments was a increase in the attorney budget due to higher than anticipated legal expenditures and an increase in public works for unanticipated contracted services for crushing concrete.

The final amended budget to actual showed no significant budget variances. Intergovernmental revenues were over budget due to higher than anticipated contributions from TIFA. Overall revenues exceeded budget. There were also no significant fluctuations in the final budget to actual expenditure comparison. Overall expenditures came in under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the City had \$16,335,887 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This represents a decrease of \$164,372 from last year. This decrease was a result of normal depreciation offset by current year capital asset additions. The Croton road project was the only significant fixed asset addition during the year. There were no significant deletions during the year. Additional information on capital assets can be found in note E of the notes to the financial statements.

Long-Term Debt

At June 30, 2007 the City had \$4,233,053 in long-term debt outstanding. This amount is comprised of many different debt obligations, most of which is attributed to debts on infrastructure for water and sanitary sewer systems. The City incurred no new debt during the year.

In addition to the City's debt, the TIFA component unit had outstanding long-term debt totaling \$6,605,336. \$5,080,336 of this debt is owed on the Magna Donnelly building which is presently owned by the TIFA. Debt issued by the component unit is typically secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health.

Additional information concerning component unit long-term debt is presented in note H of the notes to the financial statements.

GENERAL ECONOMIC OVERVIEW

The City depends on four major sources of income to fund operations: local property taxes, state shared revenues from sales tax, state street funds, and water and sewer utility fees. Clearly, discussion of the City's financial outlook must center on these major income sources.

Local Property Tax

The current 2007-08 City budget includes a drop in the City millage rate from 18.8500 to 18.2500. The drop in millage rate is part of an on going effort by the City Council and staff to continue to decrease the tax burden and promote economic growth. The Newaygo Economic Development Office (NEDO) continues to work diligently toward that end. Good managed growth will add to the tax revenue of the City and help to reduce the tax burden on each individual taxpayer of the City while improving the quality of life for all citizens. NEDO, with the help of TIFA and the Newaygo Chamber of Commerce has obtained a grant from the federal government to market and promote the City of Newaygo. The goal will be to attract new residents, businesses, and tourists to the area to stimulate the economy, increase revenues, and create more jobs for local citizens. Besides promotion, the City continues to work on beautification of structures and spaces. The City is in the process of applying to the Michigan State Housing Development Authority (MSHDA) to request more grant funds for rehabilitation of rental units and a neighborhood preservation planning grant to further support the efforts mentioned above.

Another factor influencing property tax revenues is Proposal A (1994). The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because certain properties may increase in value by less than inflation, the result is that the City's total taxable value may grow less than inflation. In addition, almost the entire City is part of a TIFA district. This means that most of the tax revenue available to the General Fund for City operations is capped at a certain amount. This has been true since the formation of the TIFA District back in 1985. However, a new transfer of land into the City through a PA 425 agreement was completed in April 2006 that will bring additional tax revenues to the City's General Fund that will not be captured by the TIFA. The City has also filed petitions to the State Boundary Commission to annex certain "island" township parcels located within the City limits. These parcels are surrounded by City residents and business and have benefited from being located within the City, but have not paid City taxes like the rest of the citizens of the City. If these petitions are approved, this will bring additional tax revenue to the City's general fund that is not captured by TIFA.

State Shared Revenues

State shared revenues are based on sales tax revenues. This revenue source decreased slightly this year again. The economy in Michigan continues to suffer, currently one of the worst in the United States. If the economy recovers, this revenue should increase. Management continues to monitor this situation and the affect any changes will have on the City's budget. State shared sales tax revenues represent approximately 25% of total General Fund revenues. Over the past 5-6 years, the amount of revenue sharing received by the City has decreased every year. This year the revenue decreased about \$5,007. For the fiscal year ending June 30, 2007, the City received \$163,137 from state sales tax revenue sharing. In the next year the City expects this revenue to stay level or decrease slightly as it will take time for the economy to recover in the State of Michigan.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have. Over the past 5-6 years, revenues for streets have increased or remained level at worst. This year's financial statements saw an increase. Major street revenues increased 2.8% to a total of \$127,739. Local street revenues increased 5.9% to a total of \$45,990. As mentioned above, due to the slow recovery of the Michigan economy, the City expects this revenue to stay level in the next year. The City is planning to modify and re-pave Wood St from River St north to the end of the street. River street between M-37 and Wood St will also be modified and re-paved. The corner of Ewing St and Washington St will be widened. Sidewalks will continue to be added to some streets and repaired on others. These projects are expected to be paid for with mostly TIFA funds. The State of Michigan will share in some of the costs for River St.

Water and Sewer Fees

Other than local property taxes, combined water and sewer fees represent the City's largest income source totaling approximately \$740,000. Charges to customers are based on the amount of metered services used times rates periodically set by the City Council. Rates did not change in the 2006-07 fiscal year. It is anticipated that rates will remain unchanged in the 2007-08 fiscal year. However, the City continues to review its fee policies in order to equitably charge for water and sewer usage. The City hopes to keep its water and sewer rates level by bringing in new growth to generate new revenue. There is a large project in the design phase that, if constructed, would bring new water and sewer revenues to the City.

The City has also begun to put away contingency funds for water and sewer infrastructure replacements. This will help to reduce or eliminate large bond issues for future improvements. Due to money received by Rural Development, the City has also installed or repaired much infrastructure and purchased new equipment relating to the water and sewer systems. This is significant because it helps to keep repair and maintenance costs down and also provide capacity for the future growth of the City.

The next major capital outlay, approximately \$2,500,000 to \$2,700,000, will come from the need for an additional City water well, an expanded iron removal plant, and an additional water tower. The City has received a federal EDA grant to offset a portion of the cost of these improvements. It is anticipated that TIFA bonds will be used to pay for the balance of the cost. By funding the improvements in this way, the City Water Fund will not be burdened, therefore eliminating the need to make significant water rate increases.

Newaygo Riverbank Development

Currently the City is working with investors and developers that are designing a planned unit development that will be an upscale village with a core lodge facility that includes fine dining, a lounge, spa, recreation opportunities, and condos. The development would be approximately 230 acres and is west of Mundy Ave and adjacent to the Muskegon River. This project is very exciting for the City of Newaygo and could bring millions of dollars of taxable value helping to further bolster the Newaygo economy.

Park and Recreation Improvements

The City continues to make park improvements and increase opportunities for recreation in the area. To further these activities, the City of Newaygo, along with the neighboring Townships of Brooks and Garfield, has created the Newaygo Community Recreation Authority (NCRA). This Authority is charged with developing and promoting recreational opportunities and also protect natural resources. Some projects in progress include the following. The pond at Henning park has been repaired, cleaned and reopened. The parking lot, tennis courts, and volley ball court have been improved or fixed. A trailway between Henning Park and Shaw park is being installed. At Shaw park more parking has been installed and new horse shoe pits.

There are other projects in the planning process as well. These include the following. An additional mile of river front trail is being contemplated along the Muskegon River south of the existing City river front park. The city is working with NCRA, the DNR, and other private foundations for funding of the project. The City is also working with Newaygo Public Schools to improve and expand recreation and sport facilities at the High School.

Miscellaneous

The City is doing a number of things to exercise good fiscal responsibility. The City has responded to the economic downturn and pressure on revenues by reducing program expenses. The City has hired people with skills to handle different tasks "in-house" rather than paying expensive consultants or other third parties. The City has also started various maintenance or replacement programs for vehicles, heavy machinery and office equipment in order to keep maintenance expenses down and to eliminate large capital outlays for wide spread replacements. The City now has a retirement health savings plan to reduce the City's future liability on accumulated leave time. The City is also working on a capital improvement program to project expenses five years into the future. Lastly, the City recognizes the value of its employees and the need for good, well trained, professional people that exhibit leadership and a positive attitude. With this in mind the City has increased its focus on training, safety, risk management, and people skills.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Office at 28 State Road, PO Box 308, Newaygo, Michigan 49337 or call (231) 652-1657.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 3, 2007

Honorable Mayor and Members
of the City Council
City of Newaygo
Newaygo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newaygo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - x and 35 - 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

City Council
October 3, 2007
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newaygo's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of Newaygo
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2007

	ASSETS			
	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 371,667	\$ 183,095	\$ 554,762	\$ 451,282
Receivables	110,446	87,298	197,744	-
Due from other governmental units	79,320	-	79,320	-
Inventories	-	6,812	6,812	-
Prepaid items	14,459	-	14,459	-
Total current assets	575,892	277,205	853,097	451,282
NONCURRENT ASSETS				
Restricted assets	-	194,628	194,628	340,960
Capital assets, net				
Nondepreciable	397,298	433,957	831,255	81,850
Depreciable	6,473,870	9,030,762	15,504,632	4,328,096
Special assessments receivable	281,935	-	281,935	-
Notes receivable	375,000	-	375,000	-
Total noncurrent assets	7,528,103	9,659,347	17,187,450	4,750,906
Total assets	8,103,995	9,936,552	18,040,547	5,202,188
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	55,430	63,657	119,087	51,582
Bonds and other obligations, due within one year	195,500	69,000	264,500	311,766
Total current liabilities	250,930	132,657	383,587	363,348
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,024,455	2,944,098	3,968,553	6,293,570
Total liabilities	1,275,385	3,076,755	4,352,140	6,656,918
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	6,113,646	6,472,719	12,586,365	(670,390)
Restricted for:				
Streets and highways	78,328	-	78,328	-
Debt service	113,773	141,406	255,179	319,960
Unrestricted	522,863	245,672	768,535	(1,104,300)
Total net assets (deficit)	\$ 6,828,610	\$ 6,859,797	\$ 13,688,407	\$ (1,454,730)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total	Component units
					Governmental activities	Business-type activities		
Primary government								
Governmental activities								
General government	\$ 345,556	\$ 113,914	\$ -	\$ -	\$ (231,642)	\$ -	\$ (231,642)	\$ -
Public safety	366,074	21,318	8,689	15,021	(321,046)	-	(321,046)	-
Public works	753,412	57,238	173,729	507,885	(14,560)	-	(14,560)	-
Community and economic development	390	-	-	12,500	12,110	-	12,110	-
Culture and recreation	93,763	-	-	-	(93,763)	-	(93,763)	-
Interest on long-term debt	31,466	-	-	48,960	17,494	-	17,494	-
Total governmental activities	1,590,661	192,470	182,418	584,366	(631,407)	-	(631,407)	-
Business-type activities								
Sewer	576,029	359,641	-	-	-	(216,388)	(216,388)	-
Water	508,186	380,377	-	-	-	(127,809)	(127,809)	-
Total business-type activities	1,084,215	740,018	-	-	-	(344,197)	(344,197)	-
Total primary government	<u>\$ 2,674,876</u>	<u>\$ 932,488</u>	<u>\$ 182,418</u>	<u>\$ 584,366</u>	(631,407)	(344,197)	(975,604)	-
Component units								
Tax Increment Finance Authority	\$ 1,407,580	\$ -	\$ -	\$ -	-	-	-	(1,407,580)
Local Development Finance Authority	77,538	-	-	-	-	-	-	(77,538)
Total component units	<u>\$ 1,485,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-	(1,485,118)
General revenues								
Property taxes					270,149	-	270,149	1,818,414
Franchise fees					10,436	-	10,436	-
Grants and contributions not restricted to specific programs					472,143	-	472,143	-
Unrestricted investment earnings					33,815	16,957	50,772	40,669
Miscellaneous					42,119	-	42,119	-
Special item - Property tax audit					-	-	-	236,940
Total general revenues and special item					828,662	16,957	845,619	2,096,023
Change in net assets					197,255	(327,240)	(129,985)	610,905
Net assets (deficit) at July 1, 2006					6,631,355	7,187,037	13,818,392	(2,065,635)
Net assets (deficit) at June 30, 2007					<u>\$ 6,828,610</u>	<u>\$ 6,859,797</u>	<u>\$ 13,688,407</u>	<u>\$ (1,454,730)</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Major Streets	Downtown Parking Lot Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and investments	\$ 140,492	\$ 30,451	\$ 44,483	\$ 69,215	\$ 284,641
Receivables					
Accounts	20,446	-	-	-	20,446
Special assessments	-	-	262,390	59,546	321,936
Due from other funds	1,675	-	-	-	1,675
Due from other governmental units	52,147	20,155	-	7,018	79,320
Prepaid items	14,459	-	-	-	14,459
Total assets	<u>\$ 229,219</u>	<u>\$ 50,606</u>	<u>\$ 306,873</u>	<u>\$ 135,779</u>	<u>\$ 722,477</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 22,969	\$ 7	\$ -	\$ 883	\$ 23,859
Accrued liabilities	10,152	48	-	782	10,982
Due to other funds	-	-	-	1,675	1,675
Deferred revenue	-	-	234,390	57,229	291,619
Total liabilities	<u>33,121</u>	<u>55</u>	<u>234,390</u>	<u>60,569</u>	<u>328,135</u>
Fund balances					
Reserved for:					
Prepaid items	14,459	-	-	-	14,459
Debt service	-	-	72,483	47,420	119,903
Unreserved, undesignated					
General fund	181,639	-	-	-	181,639
Special revenue funds	-	50,551	-	27,790	78,341
Total fund balances	<u>196,098</u>	<u>50,551</u>	<u>72,483</u>	<u>75,210</u>	<u>394,342</u>
Total liabilities and fund balances	<u>\$ 229,219</u>	<u>\$ 50,606</u>	<u>\$ 306,873</u>	<u>\$ 135,779</u>	<u>\$ 722,477</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balance—governmental funds		\$ 394,342
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 9,766,130	
Accumulated depreciation	<u>(3,133,618)</u>	6,632,512
Other long-term notes receivable in governmental activities are not reported in the governmental funds.		425,000
Accrued interest in governmental activities is not reported in the governmental funds.		(5,483)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		291,619
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(991,000)	
Compensated absences	<u>(37,433)</u>	(1,028,433)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the governmental activities in the Statement of Net Assets.		<u>119,053</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 6,828,610</u></u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	Major Streets	Downtown Parking Lot Fund	Other governmental funds	Total governmental funds
REVENUES					
Property taxes	\$ 270,149	\$ -	\$ -	\$ -	\$ 270,149
Licenses and permits	17,010	-	-	-	17,010
Intergovernmental revenues					
Federal	641	-	-	-	641
State	163,137	127,739	-	53,588	344,464
Local	297,973	-	-	-	297,973
Charges for services	167,065	-	-	32,732	199,797
Fines and forfeitures	16,741	-	-	-	16,741
Investment earnings	7,284	2,540	15,135	8,083	33,042
Other	41,568	-	28,426	82,430	152,424
Total revenues	981,568	130,279	43,561	176,833	1,332,241
EXPENDITURES					
Current					
General government	318,537	-	-	-	318,537
Public safety	355,052	-	-	-	355,052
Public works	198,523	171,208	-	103,322	473,053
Community and economic development	390	-	-	-	390
Culture and recreation	59,763	-	-	-	59,763
Other governmental functions	38,124	-	-	-	38,124
Debt service					
Principal	-	-	20,000	80,000	100,000
Interest and fees	-	-	11,770	10,988	22,758
Capital outlay	742	-	-	34,895	35,637
Total expenditures	971,131	171,208	31,770	229,205	1,403,314
Excess of revenues over (under) expenditures	10,437	(40,929)	11,791	(52,372)	(71,073)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	24,956	24,956
Transfers out	(14,956)	(10,000)	-	-	(24,956)
Total other financing sources (uses)	(14,956)	(10,000)	-	24,956	-
Net change in fund balances	(4,519)	(50,929)	11,791	(27,416)	(71,073)
Fund balances at July 1, 2006	200,617	101,480	60,692	102,626	465,415
Fund balances at June 30, 2007	\$ 196,098	\$ 50,551	\$ 72,483	\$ 75,210	\$ 394,342

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$ (71,073)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Contribution of capital assets are recorded as revenue in the Statement of Activities, but not in the governmental funds.	371,209
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Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (460,803)	
Capital outlay	<u>261,059</u>	(199,744)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	100,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	647
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(4,661)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(37,904)
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The internal service fund is used by management to charge of certain activities to individual funds. The net change of the internal service funds is reported with the governmental activities.	<u>38,781</u>
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Change in net assets of governmental activities	<u><u>\$ 197,255</u></u>
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The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2007

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 52,745	\$ 130,350	\$ 183,095	\$ 87,026
Accounts receivable	39,657	47,641	87,298	-
Inventories	3,888	2,924	6,812	-
Total current assets	96,290	180,915	277,205	87,026
NONCURRENT ASSETS				
Restricted assets	74,962	119,666	194,628	-
Capital assets				
Land	429,500	-	429,500	-
Utility systems	7,329,966	4,734,073	12,064,039	-
Vehicles and equipment	192,087	105,222	297,309	679,636
Construction in progress	-	4,457	4,457	-
Less accumulated depreciation	(1,960,162)	(1,370,424)	(3,330,586)	(440,980)
Net capital assets	5,991,391	3,473,328	9,464,719	238,656
Total noncurrent assets	6,066,353	3,592,994	9,659,347	238,656
Total assets	6,162,643	3,773,909	9,936,552	325,682
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	1,093	6,284	7,377	8,951
Accrued liabilities	25,512	30,768	56,280	6,156
Bonds and other obligations, due within one year	16,000	53,000	69,000	35,500
Total current liabilities	42,605	90,052	132,657	50,607
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,262,650	1,681,448	2,944,098	156,022
Total liabilities	1,305,255	1,771,500	3,076,755	206,629
NET ASSETS				
Invested in capital assets, net of related debt	4,723,391	1,749,328	6,472,719	47,134
Restricted for debt service	52,508	88,898	141,406	-
Unrestricted	81,489	164,183	245,672	71,919
Total net assets	\$ 4,857,388	\$ 2,002,409	\$ 6,859,797	\$ 119,053

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 359,641	\$ 380,377	\$ 740,018	\$ 194,123
OPERATING EXPENSES				
Administration	102,393	121,640	224,033	-
Operations	193,340	188,059	381,399	92,880
Depreciation	226,361	117,987	344,348	66,381
Total operating expenses	522,094	427,686	949,780	159,261
Operating income (loss)	(162,453)	(47,309)	(209,762)	34,862
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	5,357	11,600	16,957	774
Interest expense	(53,935)	(80,500)	(134,435)	(9,355)
Total nonoperating revenue (expenses)	(48,578)	(68,900)	(117,478)	(8,581)
Income (loss) before contributions and transfers	(211,031)	(116,209)	(327,240)	26,281
Capital contributions	-	-	-	12,500
Change in net assets	(211,031)	(116,209)	(327,240)	38,781
Net assets at July 1, 2006	5,068,419	2,118,618	7,187,037	80,272
Net assets at June 30, 2007	\$ 4,857,388	\$ 2,002,409	\$ 6,859,797	\$ 119,053

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 364,479	\$ 406,622	\$ 771,101	\$ -
Receipts from interfund services provided	1,066	2,365	3,431	194,123
Payments to suppliers	(109,794)	(76,230)	(186,024)	(79,934)
Payments to employees	(164,168)	(190,054)	(354,222)	(14,073)
Payment for interfund services used	<u>(32,939)</u>	<u>(41,974)</u>	<u>(74,913)</u>	<u>(8,000)</u>
Net cash provided by operating activities	58,644	100,729	159,373	92,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(7,551)	(34,872)	(42,423)	(19,969)
Principal paid on capital debt	(13,000)	(54,000)	(67,000)	(33,833)
Interest paid on capital debt	<u>(54,165)</u>	<u>(81,460)</u>	<u>(135,625)</u>	<u>(9,755)</u>
Net cash used for capital and related financing activities	(74,716)	(170,332)	(245,048)	(63,557)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	<u>5,357</u>	<u>11,600</u>	<u>16,957</u>	<u>774</u>
Net increase (decrease) in cash and investments	(10,715)	(58,003)	(68,718)	29,333
Cash and investments at July 1, 2006	<u>138,422</u>	<u>308,019</u>	<u>446,441</u>	<u>57,693</u>
Cash and investments at June 30, 2007	<u>\$ 127,707</u>	<u>\$ 250,016</u>	<u>\$ 377,723</u>	<u>\$ 87,026</u>
Reconciliation of cash and investments to the Statement of Net Assets				
Cash and investments	\$ 52,745	\$ 130,350	\$ 183,095	\$ 87,026
Restricted assets	<u>74,962</u>	<u>119,666</u>	<u>194,628</u>	<u>-</u>
	<u>\$ 127,707</u>	<u>\$ 250,016</u>	<u>\$ 377,723</u>	<u>\$ 87,026</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (162,453)	\$ (47,309)	\$ (209,762)	\$ 34,862
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	226,361	117,987	344,348	66,381
Change in assets and liabilities				
Receivables, net	5,905	28,610	34,515	-
Accounts payable	(15,367)	3	(15,364)	(9,183)
Accrued liabilities	<u>4,198</u>	<u>1,438</u>	<u>5,636</u>	<u>56</u>
Net cash provided by operating activities	<u>\$ 58,644</u>	<u>\$ 100,729</u>	<u>\$ 159,373</u>	<u>\$ 92,116</u>
Noncash financing activities				
Donated capital asset	\$ -	\$ -	\$ -	\$ 12,500

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	<u>Agency funds</u>
ASSETS	
Cash and investments	\$ <u>24,859</u>
Total assets	\$ <u><u>24,859</u></u>
LIABILITIES	
Due to other governmental units	\$ 16,528
Deposits held for others	<u>8,331</u>
Total liabilities	\$ <u><u>24,859</u></u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS (DEFICIT)
Discretely Presented Component Units
June 30, 2007

ASSETS

	Tax Increment Finance Authority	Local Development Finance Authority	Total
CURRENT ASSETS			
Cash and investments	\$ 393,319	\$ 57,963	\$ 451,282
Total current assets	393,319	57,963	451,282
NONCURRENT ASSETS			
Restricted assets	340,960	-	340,960
Capital assets, net			
Nondepreciable	81,850	-	81,850
Depreciable	4,328,096	-	4,328,096
Net capital assets	4,409,946	-	4,409,946
Total noncurrent assets	4,750,906	-	4,750,906
Total assets	5,144,225	57,963	5,202,188
LIABILITIES AND NET ASSETS (DEFICITS)			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	51,582	-	51,582
Bonds and other obligations, due within one year	311,766	-	311,766
Total current liabilities	363,348	-	363,348
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	6,293,570	-	6,293,570
Total liabilities	6,656,918	-	6,656,918
NET ASSETS (DEFICITS)			
Invested in capital assets, net of related debt	(670,390)	-	(670,390)
Restricted for debt service	319,960	-	319,960
Unrestricted	(1,162,263)	57,963	(1,104,300)
Total net assets (deficit)	\$ (1,512,693)	\$ 57,963	\$ (1,454,730)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2007

<i>Functions/Programs</i>	Expenses	Net (Expense) Revenue and Changes in Net Assets		
		Tax Increment Finance Authority	Local Development Finance Authority	Total
Tax Increment Finance Authority				
General government	\$ 221,191	\$ (221,191)	\$ -	\$ (221,191)
Public works	163,193	(163,193)	-	(163,193)
Community and economic development	295,439	(295,439)	-	(295,439)
Distributions to other taxing authorities	333,200	(333,200)	-	(333,200)
Interest on long-term debt	394,557	(394,557)	-	(394,557)
Total Tax Increment Finance Authority	1,407,580	(1,407,580)	-	(1,407,580)
Local Development Finance Authority				
General government	7,500	-	(7,500)	(7,500)
Distributions to other taxing authorities	69,408	-	(69,408)	(69,408)
Interest on long-term debt	630	-	(630)	(630)
Total Local Development Finance Authority	77,538	-	(77,538)	(77,538)
Total discretely presented component units	<u>\$ 1,485,118</u>	(1,407,580)	(77,538)	(1,485,118)
General revenues				
Property taxes		1,710,179	108,235	1,818,414
Unrestricted investment earnings		37,629	3,040	40,669
Special item - Property tax audit		236,940	-	236,940
Total general revenues and special item		1,984,748	111,275	2,096,023
Change in net assets		577,168	33,737	610,905
Net assets (deficit) at July 1, 2006		(2,089,861)	24,226	(2,065,635)
Net assets (deficit) at June 30, 2007		<u>\$ (1,512,693)</u>	<u>\$ 57,963</u>	<u>\$ (1,454,730)</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Newaygo (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that they are legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end.

Discretely Presented Component Unit

Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). The TIFA and LDFA boards are appointed by the City Council, but the Authorities operate as a separate entity. The boards can authorize and issue debt independent from the City. The component units are presented as governmental fund types.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Downtown Parking Lot Fund accounts for special assessment revenues from local residents for principal and interest payments on special assessment bonds issued in 2003.

The City reports the following two major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the City totaled approximately \$50,000,000 of which approximately \$36,900,000 was captured by the component units. The ad valorem taxes levied consisted of 18.85 mills for the City's operating purposes. This amount is recognized in the General Fund with the captured amounts shown in the TIFA and LDFA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	10-35
Office furniture and equipment	5-10
Vehicles and equipment	5-10
Infrastructure and shared improvements	10-50

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Any vacation which has not been used during the calendar year will be transferred to the employee's paid sick days accumulation at the end of the year. Upon termination, employees are paid for one-half of their accrued sick days as separation pay. If an employee dies, the full amount of accrued sick days will be paid to the employee's designated beneficiary. Sick leave is accumulated at the rate of one day per month of employment. Employees may accrue unused sick days up to a maximum of 120 days. On the last day of November of any calendar year, employees may elect to be paid for one-half of the unused sick days which they accumulated during the year (up to a maximum payment of six days).

The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Moody's</u>	<u>Percent</u>
Money market mutual fund	\$ 106,694	36	AAA	26.3 %
External investment pool	<u>299,194</u>	<u>35</u>	not rated	<u>73.7</u>
Total fair value	<u>\$ 405,888</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>35</u>		

The City voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pool.

Interest rate risk. The City's formal investment policy limits investment maturities two years or less based upon the type of investment.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2007, \$1,053,132 of the City's bank balance of \$1,242,098 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2007, restricted cash and investments in the enterprise funds and TIFA component unit are restricted as follows:

Business-type activities

Water Fund

Bond and Interest Redemption Fund	\$ 35,440
Bond Reserve Fund	<u>84,226</u>
	119,666

Sewer Fund

Bond and Interest Redemption Fund	30,836
Bond Reserve Fund	<u>44,126</u>
	<u>74,962</u>
	<u>\$ 194,628</u>

Component units

TIFA

Bond interest and redemption	<u>\$ 340,960</u>
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After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—NOTES RECEIVABLE

The notes receivable of \$425,000 are second mortgages to individuals under the Michigan State Housing Development Authority Home Community Development Block Grant Housing program for rental rehabilitation. The mortgage notes are non-interest bearing. In the event the property is sold or any interest in the property is transferred, or a breach of grant conditions occurs within the first 5 years, the mortgagor shall pay the principal amount of the second mortgage. If the property is not sold or transferred for a period of 5 years and all provisions of the mortgage note are complied with, the mortgage note is cancelled.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 91,342	\$ -	\$ -	\$ 91,342
Land improvements	305,956	-	-	305,956
Construction in progress	78,175	-	78,175	-
Total capital assets, not being depreciated	475,473	-	78,175	397,298
Capital assets, being depreciated:				
Land improvements	1,252,352	-	-	1,252,352
Buildings and improvements	1,597,385	61,915	-	1,659,300
Furniture, vehicles and equipment	800,738	93,675	21,326	873,087
Infrastructure	3,838,369	600,776	-	4,439,145
Shared improvements	1,824,584	-	-	1,824,584
Total capital assets, being depreciated	9,313,428	756,366	21,326	10,048,468
Less accumulated depreciation:				
Land improvements	373,638	62,618	-	436,256
Buildings and improvements	434,659	48,507	-	483,166
Furniture, vehicles and equipment	512,999	70,559	7,871	575,687
Infrastructure	1,531,102	223,860	-	1,754,962
Shared improvements	202,888	121,639	-	324,527
Total accumulated depreciation	3,055,286	527,183	7,871	3,574,598
Total capital assets, being depreciated, net	6,258,142	229,183	13,455	6,473,870
Capital assets, net	\$ 6,733,615	\$ 229,183	\$ 91,630	\$ 6,871,168

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 429,500	\$ -	\$ -	\$ 429,500
Constuction in progress	<u>-</u>	<u>4,457</u>	<u>-</u>	<u>4,457</u>
Total capital assets, not being depreciated	429,500	4,457	-	433,957
Capital assets, being depreciated:				
Sewer system	7,322,415	7,551	-	7,329,966
Water system	4,703,658	30,415	-	4,734,073
Equipment	<u>297,309</u>	<u>-</u>	<u>-</u>	<u>297,309</u>
Total capital assets, being depreciated	12,323,382	37,966	-	12,361,348
Less accumulated depreciation:				
Sewer system	1,679,686	202,022	-	1,881,708
Water system	1,227,459	105,767	-	1,333,226
Equipment	<u>79,093</u>	<u>36,559</u>	<u>-</u>	<u>115,652</u>
Total accumulated depreciation	<u>2,986,238</u>	<u>344,348</u>	<u>-</u>	<u>3,330,586</u>
Total capital assets, being depreciated, net	<u>9,337,144</u>	<u>(306,382)</u>	<u>-</u>	<u>9,030,762</u>
Capital assets, net	<u><u>\$ 9,766,644</u></u>	<u><u>\$ (301,925)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,464,719</u></u>

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 21,547
Public safety	8,017
Public works	391,511
Culture and recreation	39,727
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>66,381</u>
	<u><u>\$ 527,183</u></u>

Business-type activities:

Sewer	\$ 226,361
Water	<u>117,987</u>
	<u><u>\$ 344,348</u></u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Component units:				
Capital assets, not being depreciated:				
Tax Increment Finance Authority				
Land	\$ 81,850	\$ -	\$ -	\$ 81,850
Capital assets, being depreciated:				
Tax Increment Finance Authority				
Building and improvements	7,300,000	29,207	-	7,329,207
Less accumulated depreciation:				
Tax Increment Finance Authority				
Buildings and improvements	<u>2,757,777</u>	<u>243,334</u>	<u>-</u>	<u>3,001,111</u>
Total capital assets, being depreciated, net	<u>4,542,223</u>	<u>(214,127)</u>	<u>-</u>	<u>4,328,096</u>
Capital assets, net	<u>\$ 4,624,073</u>	<u>\$ (214,127)</u>	<u>\$ -</u>	<u>\$ 4,409,946</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Community and economic development	\$ 243,334
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NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds:

At June 30, 2007, the Barton/Division Special Assessment Fund owed the General Fund \$1,675. The outstanding balance was a temporary loan from the General Fund for operational purposes.

Interfund transfers:

	Transfers in: Other governmental funds	Total	Purpose
Transfers out:			
General Fund	\$ 14,956	\$ 14,956	Debt service
Major Street Fund	<u>10,000</u>	<u>10,000</u>	Public works
	<u>\$ 24,956</u>	<u>\$ 24,956</u>	

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Component unit transactions:

During the year the TIFA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
Capital activities	
TIFA	\$ 48,960
Operating activities	
TIFA	240,000
LDFA	<u>50,000</u>
	<u>\$ 338,960</u>

NOTE G—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the entire amount of the City's \$291,619 in deferred revenue was unavailable.

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
General obligation bonds	\$ 79,000	\$ -	\$ 12,000	\$ 67,000	\$ 13,000
Special assessment bonds	443,000	-	40,000	403,000	40,000
Installment purchase agreements	369,355	-	81,833	287,522	83,500
Other obligations	425,000	-	-	425,000	50,000
Compensated absences	<u>32,772</u>	<u>49,271</u>	<u>44,610</u>	<u>37,433</u>	<u>9,000</u>
Governmental activity long-term liabilities	\$ <u>1,349,127</u>	\$ <u>49,271</u>	\$ <u>178,443</u>	\$ <u>1,219,955</u>	\$ <u>195,500</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Business-type activities:					
Revenue bonds	\$ 3,059,000	\$ -	\$ 67,000	\$ 2,992,000	\$ 63,000
Compensated absences	19,928	34,623	33,453	21,098	6,000
Business-type activity long-term liabilities	<u>\$ 3,078,928</u>	<u>\$ 34,623</u>	<u>\$ 100,453</u>	<u>\$ 3,013,098</u>	<u>\$ 69,000</u>
Component units:					
Limited tax development	<u>\$ 7,057,738</u>	<u>\$ -</u>	<u>\$ 452,402</u>	<u>\$ 6,605,336</u>	<u>\$ 311,766</u>

Governmental activities:

General obligation bonds:

Capital Improvement Bonds of 2004 payable in
annual installments of \$13,000 to \$14,000
through November 2011; interest at 4% \$ 67,000

Special assessment bonds:

\$265,000 Special Assessment Bonds of 1993
payable in annual installment of \$13,000 to
\$14,000 through August 2013; interest at rates
varying from 5.55% to 5.7% 96,000

\$69,000 Special Assessment Bonds of 1998; final
payment of \$7,000 due April 2008; interest at 5% 7,000

\$375,000 Special Assessment Bonds of 2003 payable
in annual installments of \$20,000 to \$35,000
through April 2018; interest at 3.6% 300,000

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Installment purchase agreements:

\$480,000 Non-interest bearing note payable in
annual installments of \$48,000 plus fees; final payment due
September 2008 \$ 96,000

Notes payable to bank in annual installments of
approximately \$42,800 through August 2011; including
interest at 3.85% 191,522

Other obligations:

Notes payable to Michigan State Housing
Development Authority; due upon sale or breach of
mortgage on or before five years subsequent to the note
issuance date; non-interest bearing 425,000

1,182,522

Compensated absences

37,433

\$ 1,219,955

Business-type activities:

Revenue bonds:

\$1,304,000 Sanitary Sewer System Revenue
Bonds; payable in annual installments of \$13,000 to
\$73,000 through August 2043; interest at 4.25% \$ 1,268,000

\$285,000 Ambac insured bonds of 1989 payable in
annual installments of \$10,000 to \$15,000 through
November 2013; interest at rates varying from 7.5% to
7.55% 80,000

\$425,000 Water Supply System Revenue Bonds of
1992 payable in annual installments of \$25,000 to \$35,000
through September 2012; interest at rates varying from
6.3% to 6.4% 185,000

\$1,500,000 Water Supply System Revenue Bonds of
2003 payable in annual installments of \$15,000 to \$85,000
through August 2043; interest at 4.25% 1,459,000

2,992,000

Compensated absences

21,098

\$ 3,013,098

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:

General obligation bonds:

\$200,000 Tax Increment Limited Obligation Bonds Series A of 1992; final payment of \$20,000 due September 2007; interest at 6%	\$ 20,000
\$495,000 Tax Increment Limited Obligation Bonds Series B of 1992 payable in annual installments of \$30,000 to \$45,000 through September 2012; interest at rates varying from 6.15% to 6.3%	225,000
\$7,300,000 Tax Increment Limited Obligation Bonds Series A of 1994 payable in annual installments of \$136,766 to \$453,234 through March 2023; interest at varying rates determined by formula, currently 5.85%	5,080,336
\$950,000 Tax Increment Limited Obligation Bonds Series B of 1994 payable in annual installments of \$50,000 to \$80,000 through October 2014; interest at rates varying from 6.15% to 6.5%	510,000
\$850,000 Tax Increment Limited Obligation Bonds Series C of 1994 payable in annual installments of \$45,000 to \$70,000 through October 2014; interest at rates varying from 7.2% to 7.4%	460,000
\$520,000 Tax Increment Limited Obligation Bonds Series D of 1994 payable in annual installments of \$30,000 to \$50,000 through October 2014; interest at rates varying from 7.5% to 7.625%	<u>310,000</u>
	<u><u>\$ 6,605,336</u></u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM DEBT—Continued

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The special assessment bonds and the first two component unit Limited Obligation Bonds are backed by the full faith and credit of the City.

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds, Series A, which are held by the City of Newaygo Tax Increment Finance Authority, are guaranteed by Magna Donnelly Corporation. If captured tax increment revenue associated with Magna Donnelly Corporation's facility is insufficient to meet the bond's current payment requirements, Magna Donnelly Corporation will cover any shortfalls. If Magna Donnelly Corporation covers any shortfalls due to insufficient captured tax increment revenue, the component unit will repay to Magna Donnelly Corporation any captured tax increment revenue in excess of current bond payment requirements in future years until Magna Donnelly Corporation is reimbursed in full for all costs associated with its guarantee.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2007.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2007 follows:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 186,500	\$ 26,924	\$ 63,000	\$ 131,946	\$ 311,766	\$ 396,479
2009	285,696	22,786	75,000	128,035	323,880	376,945
2010	140,196	18,714	76,000	123,709	346,799	356,275
2011	267,666	15,016	72,000	119,518	380,584	333,751
2012	94,464	11,238	79,000	115,279	415,445	308,982
2013-2017	173,000	23,916	251,000	529,119	2,138,489	1,138,423
2018-2022	35,000	1,260	247,000	479,635	2,235,441	528,398
2023-2027	-	-	312,000	420,579	452,932	26,497
2028-2032	-	-	393,000	345,927	-	-
2033-2037	-	-	496,000	251,855	-	-
2038-2042	-	-	626,000	133,151	-	-
2043-2044	-	-	302,000	13,131	-	-
	<u>\$ 1,182,522</u>	<u>\$ 119,854</u>	<u>\$ 2,992,000</u>	<u>\$ 2,791,884</u>	<u>\$ 6,605,336</u>	<u>\$ 3,465,750</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Lease

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds were issued to construct a manufacturing facility for Magna Donnelly Corporation. All captured tax increment revenues associated with this facility are to be used to repay the bonds issued to construct the facility. The Tax Increment Finance Authority retains ownership of the facility and leases the facility for \$1 per year to Magna Donnelly Corporation for thirty years or until the bonds associated with its construction are retired. Magna Donnelly Corporation is responsible for all operating and maintenance costs. Magna Donnelly Corporation has an option to purchase the facility, upon retirement of the bond issue, for \$1.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—OTHER INFORMATION—Continued

Jointly Governed Organizations

The City, in conjunction with other governmental entities, created the Newaygo Community Recreation Authority (NCRA) to operate recreation programs in the area. The Authority is comprised of two members from each participating entity. The NCRA board annually assesses participating entities in projected amounts required to subsidize the Authorities' annual operations. For the year ended June 30, 2007, the City's assessment for NCRA was \$3,252.

Property Tax Audit

During the year, the State of Michigan completed an audit of the Tax Increment Finance Authority's property tax capture amounts for the years 1994 through 2005. As a result of this audit, the TIFA received a refund in property taxes from various sources totaling \$236,940.

NOTE J—PENSION PLANS

Defined Contribution Plans

The City provides pension benefits for all of its full-time employees through two money purchase defined contribution plans. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 18, have completed ninety days of service and are not covered by a collective bargaining agreement, shall be eligible to participate in the plan. The City has one plan for salaried employees and one plan for hourly employees. Each plan requires the City to contribute an amount equal to 8 percent of the employee's annual compensation each plan year and employees are required to contribute 2 percent of their annual compensation. Salaried employees are immediately vested in the City's contribution and the hourly employees are 20 percent vested in the City contributions and earnings allocated to the employee account for each year of service. Any forfeitures are reallocated to participants with the regular contribution. Plan provisions and contribution requirements are established and may be amended by the City Council.

For fiscal year 2007, the City's total contribution to both defined contribution plans was approximately \$52,500, and the employee contributions were approximately \$13,200.

Retirement Health Savings Account

The City offers its employees a retirement health savings account which is a defined contribution plan administered by ICMA. The plan, available to all full time City employees, can only be used to fund health care costs during retirement. The plan requires that the City to contribute certain excess compensated absences amounts to the plan each year. For the year ended June 30, 2007, the City's contribution to the plan was approximately \$14,300.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE K—ECONOMIC DEPENDENCY

General Fund

The City's General Fund property tax revenue growth is limited due to the TIFA and LDFA, which capture property tax value increases. The General Fund's property tax value captured by the TIFA and LDFA is approximately 74 percent of the City's property tax value base. Property tax revenues represent approximately 28 percent of the General Fund's revenues.

Tax Increment Finance Authority

The TIFA has a significant economic dependency on a local corporation that is a major employer and taxpayer in the area. The TIFA receives approximately 33 percent of its property tax revenues from this company.

REQUIRED SUPPLEMENTARY INFORMATION

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 276,502	\$ 276,502	\$ 270,149	\$ (6,353)
Licenses and permits	17,700	17,700	17,010	(690)
Intergovernmental revenues				
Federal	-	-	641	641
State	181,100	181,100	163,137	(17,963)
Local	227,000	227,000	297,973	70,973
Charges for services	153,900	153,900	167,065	13,165
Fines and forfeitures	17,000	17,000	16,741	(259)
Investment earnings	4,000	4,000	7,284	3,284
Other	22,200	22,200	41,568	19,368
Total revenues	899,402	899,402	981,568	82,166
EXPENDITURES				
Current				
General government				
City Council	20,508	20,508	21,954	(1,446)
City manager	38,123	40,000	39,307	693
Elections	3,400	3,600	3,056	544
Board of review	1,200	1,200	825	375
Clerk	31,075	31,075	29,897	1,178
Treasurer	34,848	34,848	32,302	2,546
Assessor	15,900	16,000	14,729	1,271
Attorney	35,000	72,000	71,892	108
City offices	60,201	66,701	65,324	1,377
Cemetery	43,419	43,419	39,251	4,168
Public safety				
Law enforcement	339,201	370,201	355,052	15,149
Public works	158,776	200,776	198,523	2,253
Community and economic development				
Planning	1,600	1,600	390	1,210
Culture and recreation				
Parks	58,398	60,398	59,763	635
Other governmental functions	42,050	42,050	38,124	3,926
Capital outlay	-	1,000	742	258
Total expenditures	883,699	1,005,376	971,131	34,245
Excess of revenues over (under) expenditures	15,703	(105,974)	10,437	116,411
OTHER FINANCING USES				
Transfers out	15,380	15,380	14,956	424
Net change in fund balance	\$ 323	\$ (121,354)	(4,519)	\$ 116,835
Fund balance at July 1, 2006			200,617	
Fund balance at June 30, 2007			\$ 196,098	

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 135,500	\$ 135,500	\$ 127,739	\$ (7,761)
Investment earnings	<u>1,500</u>	<u>1,500</u>	<u>2,540</u>	<u>1,040</u>
Total revenues	137,000	137,000	130,279	(6,721)
EXPENDITURES				
Current				
Public works				
Administration	12,500	12,500	12,055	445
Construction	50,783	50,783	47,518	3,265
Routine maintenance	61,440	61,440	51,502	9,938
Traffic services	14,077	14,077	13,630	447
Winter maintenance	<u>47,509</u>	<u>47,509</u>	<u>46,503</u>	<u>1,006</u>
Total expenditures	<u>186,309</u>	<u>186,309</u>	<u>171,208</u>	<u>15,101</u>
Excess of revenues over (under) expenditures	(49,309)	(49,309)	(40,929)	8,380
OTHER FINANCING USES				
Transfers out	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net change in fund balance	\$ <u>(59,309)</u>	\$ <u>(59,309)</u>	(50,929)	\$ <u>8,380</u>
Fund balance at July 1, 2006			<u>101,480</u>	
Fund balance at June 30, 2007			\$ <u>50,551</u>	

OTHER SUPPLEMENTAL INFORMATION

City of Newaygo
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2007

		Special Revenue		Capital Projects	Debt Service			
	Total other governmental funds	Local Streets	Principal Shopping District	Riverfront Park Development	Mason Dr. Special Assessment	Barton/Div Special Assessment	DPW Building Debt	City Hall
ASSETS								
Cash and investments	\$ 69,215	\$ 21,541	\$ 896	\$ -	\$ 46,778	\$ -	\$ -	\$ -
Special assessments receivable	59,546	-	-	-	57,229	2,317	-	-
Due from other governmental units	7,018	7,018	-	-	-	-	-	-
Total assets	<u>\$ 135,779</u>	<u>\$ 28,559</u>	<u>\$ 896</u>	<u>\$ -</u>	<u>\$ 104,007</u>	<u>\$ 2,317</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 883	\$ -	\$ 883	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	782	782	-	-	-	-	-	-
Due to other funds	1,675	-	-	-	-	1,675	-	-
Deferred revenue	<u>57,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,229</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	60,569	782	883	-	57,229	1,675	-	-
Fund balances								
Reserved for debt service	47,420	-	-	-	46,778	642	-	-
Unreserved								
Special revenue funds	<u>27,790</u>	<u>27,777</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>75,210</u>	<u>27,777</u>	<u>13</u>	<u>-</u>	<u>46,778</u>	<u>642</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 135,779</u>	<u>\$ 28,559</u>	<u>\$ 896</u>	<u>\$ -</u>	<u>\$ 104,007</u>	<u>\$ 2,317</u>	<u>\$ -</u>	<u>\$ -</u>

City of Newaygo
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2007

	Total other governmental funds	Special Revenue		Projects	Debt Service			
		Local Streets	Principal Shopping District	Riverfront Park Development	Mason Dr. Special Assessment	Barton/Div Special Assessment	DPW Building Debt	City Hall
REVENUES								
Intergovernmental revenues - State	\$ 53,588	\$ 53,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	32,732	-	32,732	-	-	-	-	-
Investment earnings	8,083	593	-	-	6,699	791	-	-
Other	82,430	-	-	19,006	10,441	4,023	-	48,960
Total revenues	176,833	54,181	32,732	19,006	17,140	4,814	-	48,960
EXPENDITURES								
Current								
Public works	103,322	70,603	32,719	-	-	-	-	-
Debt service								
Principal	80,000	-	-	-	13,000	7,000	12,000	48,000
Interest and fees	10,988	-	-	-	6,072	1,000	2,956	960
Capital outlay	34,895	-	-	34,895	-	-	-	-
Total expenditures	229,205	70,603	32,719	34,895	19,072	8,000	14,956	48,960
Excess of revenues over (under) expenditures	(52,372)	(16,422)	13	(15,889)	(1,932)	(3,186)	(14,956)	-
OTHER FINANCING SOURCES								
Transfers in	24,956	10,000	-	-	-	-	14,956	-
Net change in fund balances	(27,416)	(6,422)	13	(15,889)	(1,932)	(3,186)	-	-
Fund balances at July 1, 2006	102,626	34,199	-	15,889	48,710	3,828	-	-
Fund balances at June 30, 2007	\$ 75,210	\$ 27,777	\$ 13	\$ -	\$ 46,778	\$ 642	\$ -	\$ -

City of Newaygo
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2007

	<u>Total agency funds</u>	<u>Tax Collection</u>	<u>Museum</u>	<u>Newaygo Community Recreation Authority</u>	<u>Escrow</u>	<u>Arts and Mural</u>
ASSETS						
Cash and investments	\$ 24,859	\$ 16,528	\$ 40	\$ 6,248	\$ 47	\$ 1,996
Total assets	<u>\$ 24,859</u>	<u>\$ 16,528</u>	<u>\$ 40</u>	<u>\$ 6,248</u>	<u>\$ 47</u>	<u>\$ 1,996</u>
LIABILITIES						
Due to other governmental units	\$ 16,528	\$ 16,528	\$ -	\$ -	\$ -	\$ -
Deposits held for others	<u>8,331</u>	<u>-</u>	<u>40</u>	<u>6,248</u>	<u>47</u>	<u>1,996</u>
Total liabilities	<u>\$ 24,859</u>	<u>\$ 16,528</u>	<u>\$ 40</u>	<u>\$ 6,248</u>	<u>\$ 47</u>	<u>\$ 1,996</u>

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2007

City Council
City of Newaygo
Newaygo, Michigan

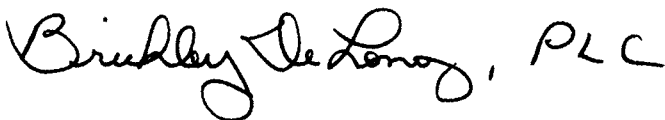
In planning and performing our audit of the financial statements of the City of Newaygo as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Newaygo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Newaygo's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the City Council, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

General

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The City should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.